What is the investment philosophy behind the Heritage Fund?

The key to sustainable performance is maintaining a diverse portfolio with a long-term focus, prudence, and investment discipline.

Where is the money invested?

The Heritage Fund has investments in bonds, real estate, domestic stocks, foreign stocks, and other financial instruments.

Who keeps track of the Fund and how well it does?

The Fund is carefully and professionally managed by a combination of managers from within government and from external agencies. These experts are drawn from the best in the field.

How secure are these investments?

A significant portion of the Heritage Fund is invested in bonds and has a predictable income stream. As these bonds come due, future income will be dependent on market conditions at the time of re-investment.

Does the government put money into the Heritage Fund every year?

We do not put additional money into the Heritage Fund. Investment returns are put into our General Revenue Fund and used to support priorities like tax cuts and program spending in health care, education, infrastructure, and debt retirement.

How do you measure performance?

The portfolios are compared against a sample of large pension and endowment funds, treasury and bond indices, domestic and global stock market holdings, and real estate holdings. Benchmarks are selected to match the goals of each portfolio. This analysis tells if the investment policy leads to competitive fund returns.

What's in store for the Heritage Fund's future?

At the upcoming Future Summit, people from across the province will gather to chart the course for post-debt Alberta. The Heritage Fund's role will undoubtedly be discussed.

ALBERTA HERITAGE SAVINGS TRUST FUND

ANNUAL REPORT 2001

HIGHLIGHTS

Heritage Fund

Alberta REVENUE

WHAT IS THE ALBERTA HERITAGE SAVINGS TRUST FUND?

The Heritage Fund was created in 1976 when oil and gas revenues were high and our economy was booming. The government thought some of this extra money should be set aside for future generations of Albertans.

Throughout its 25-year history, the Heritage Fund has served Albertans in many ways. It has financed many projects that contribute to Alberta's high quality of life. These projects have promoted tourism, developed parks and recreational areas, enhanced Alberta's libraries, and maintained forests. They have created a lasting legacy with benefits that will remain.

In 1987, the Fund's value reached $12.7 billion. But it soon began to drop because of spending on a number of projects needed to diversify the economy and meet the needs of a growing population.

In 1995, we asked Albertans to share their views on the Heritage Fund's future. Most respondents said we should keep the Fund, but they asked for a few changes. Albertans told us to focus on earning greater long-term returns, and to use these returns as a steady stream of income to help pay for Alberta's current needs. We listened.

In 1997, we re-structured the Heritage Fund to reflect your wishes. It was divided into two distinct portfolios: the Transition Portfolio to meet immediate fiscal needs, and the Endowment Portfolio to maximize long-term investments. All assets will be transferred to the Endowment Portfolio by 2003.

Did you know...

The Heritage Fund is celebrating its 25th birthday.

How much money did the Heritage Fund earn this year?

The Fund earned $706.2 million in net investment income. This money will be used to support your priorities like tax cuts and program spending in health care, education, infrastructure and debt retirement.

How much money is in the Heritage Fund?

The total fair value of the Fund is $12.1 billion, which represents about $4000 for every Albertan.

How is the Fund invested?

The Heritage Fund is divided into two portfolios. The Transition Portfolio is designed to meet the province's immediate needs. The Endowment Portfolio is designed to maximize long-term returns.

All assets will be shifted to the Endowment Portfolio by 2003. This year, $2.4 billion was transferred. That means 62% of the Heritage Fund's assets are invested with a long-term focus.

Is the Fund successful?

The Heritage Fund will meet all performance benchmarks this year.

HOW DO I FIND OUT MORE?

VISIT
The Alberta Heritage Savings Trust Fund
web site at:
www.treas.gov.ab.ca/business/ahstf/index.html

EMAIL
Visit **www.albertaconnects.gov.ab.ca**
to submit your questions and comments

PHONE
Our general information line at
Alberta Revenue:
(780) 427-3035
(to be connected toll-free,
dial 310-000, then the number)

CONTACT
Your MLA's office

WRITE
Heritage Fund,
Room 304, Terrace Building,
Edmonton, Alberta, T5K 2C3

Heritage Fund

Alberta
REVENUE

101-05442/

Fund Profile

The Fund, established in 1976, operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. A new *Act* was passed and came into force on January 1, 1997 that sets out a revised investment framework for the Heritage Fund. The statutory mission of the Fund is:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan and annual report of the Fund. The Standing Committee has representation from the major parties of the Legislature. The Standing Committee receives regular reports on the performance of the Fund and conducts public meetings on an annual basis in different locations in the Province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objectives.

On March 15, 2001, the government announced new ministry structures. As a result, responsibility for the Fund and its investments was transferred to the new Ministry of Revenue. The Minister of Revenue is required to report on the performance of the Fund quarterly within 60 days of the end of the quarter and make public the annual report within 90 days of the end of the fiscal year.

The business plan of the Heritage Fund is published as part of the budget and the income of the Fund is consolidated into the revenue of the Province.

An Investment Operations Committee was established to add private sector financial and business oversight of the Fund's investment policies and operation. The Investment Operations Committee is chaired by the Deputy Minister of Revenue and consists primarily of private sector members. The Committee reviews and makes recommendations with respect to the business plan, annual report and investment policy statements for the Fund. The Committee meets at least quarterly to review performance and fund management.

The investment portfolio of the Heritage Fund is managed by a group of highly qualified and experienced professionals in Alberta Revenue's Investment Management Division. External specialist managers (private sector investment managers) are used to manage specific investment mandates. For the year ending March 31, 2001, the Fund's total investment expense, for both externally and internally managed investments, was $8.1 million or .067% of the Fund's total market value. The management of the fund is cost effective. The average investment expense paid by other institutional investors is 0.25% of total market value or the equivalent of $30.3 million. A savings of approximately $22.2 million to the Province.

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Additional copies of this report and copies of the future quarterly reports on the Heritage Fund may be obtained by writing:

Heritage Fund, Room 304, Terrace Building,
Edmonton, Alberta, T5K 2C3

or by telephoning (780) 427-3035

or by visiting our website at: www.treas.gov.ab.ca

Minister of Revenue's Report to Albertans on the Alberta Heritage Savings Trust Fund

It's an honour to report to Albertans on the performance of the Alberta Heritage Savings Trust Fund during the year of its 25th anniversary. The Heritage Fund has become a unique symbol of pride to Albertans and an illustration of forward thinking and long-range planning by government.

As many Albertans know, the Heritage Fund was created in 1976, when the oil and gas sector was booming. Non-renewable resource revenue collected by the Alberta Government was reaching record highs, so the government decided to take some of those revenues and put them into an investment fund. The idea was, that there would be a source of revenue for the province to fall back on when oil and gas resources are reduced.

The Heritage Fund started with an initial investment of $620 million and a special contribution of $1.5 billion. The Fund earned $88 million from investments during 1976-77, bringing the Heritage Fund's total assets to $2.218 billion on March 31, 1977.

As of March 31, 2001, the total fair value of the Fund is $12.1 billion and it earned $706.2 million in net investment income.

The future of the Heritage Fund was reviewed in 1995. The Alberta Government surveyed Albertans and we were told to keep the Fund for future generations with a focus on earning greater returns on long-term investments, while providing a steady stream of income to help pay for current needs.

To do this, a plan was put into place in 1997 to re-structure the Fund. The Fund was divided into two distinct portfolios: the Transition Portfolio to support the Province's immediate fiscal needs; and the Endowment Portfolio to optimize long-term returns.

With the decline in long-term interest rates, it was realized that the only way to provide a sustainable level of income in real terms was to invest in assets that would provide higher long-term returns. This would mean a portfolio with a significant commitment to equities.

In keeping with what Albertans' said, all of the $706.2 million that the Heritage Fund earned in 2000-01 was transferred to the province's General Revenue Fund and used for Albertans' priorities like health care, education, roads, tax reductions and debt repayment.

We must recognize that in focusing more on achieving a higher long-term rate of return, we must accept increased risk and volatility in the Fund's investment income from year to year. The key to achieving long-run, sustainable performance is to maintain a prudent diversified portfolio, a long-term focus, and investment discipline.

And since the volatility in equity markets can produce fluctuations in performance from year to year, the performance of the Fund must be assessed over the long term.

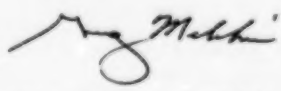
The Heritage Fund must be managed on a prudent basis. Key to that management is the measurement of performance against clearly defined benchmarks.

As you may have noticed if you watch the markets, fiscal 2000-01 was a weak year in the world equity markets. The downturn in equity markets contributed to lower than expected investment income

and a decline of 5.7% in the total fair value of the Fund from the previous year. However, the Fund is still exceeding its performance benchmarks.

The Heritage Fund is an important part of the Province's fiscal framework and represents an ongoing legacy for all Albertans. Earlier this year, both Moody's Investor Services, and Standard and Poor's announced they were boosting Alberta's credit rating to triple A, higher than any other Canadian province. The long-term stability of the Heritage Fund is a key consideration in their reviews.

The Heritage Fund is an important part of Alberta's past, present and future. The future of the Heritage Fund will be explored again at the up-coming Future Summit where people from across Alberta will discuss and help develop a plan for a debt-free Alberta.



Honourable Greg Melchin
Minister of Revenue

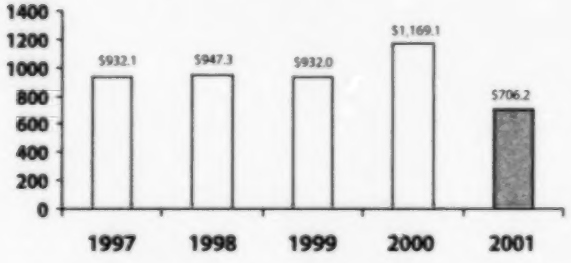
The Year in Review

- The Fund earned net income of $706.2 million in 2000-01, a decrease of $462.9 million from $1,169.1 million a year earlier. During the year, all of the Fund's income was transferred to the General Revenue Fund. On March 31, 2001, the net assets of the Fund were $12,256.3 million on a cost basis.
- The Government of Alberta financial statements are prepared on a consolidated basis which eliminates the income the Heritage Fund earns on holdings from Alberta Government and Provincial Corporation securities totalling $53.2 million for the year ending March 31, 2001. On a consolidated basis, Heritage Fund income is $653 million.
- On a cost basis, the Fund returned 6.3% over a one-year period, versus the cost of the debt of 8.3%.
- Over the year, $2,400.0 million (at cost) was transferred from the Transition Portfolio to the Endowment Portfolio.
- On a fair value basis on March 31, 2001, the net assets of the Fund were $12,123.7 million a decline of $730.1 million from the March 31, 2000 amount of $12,853.8 million.

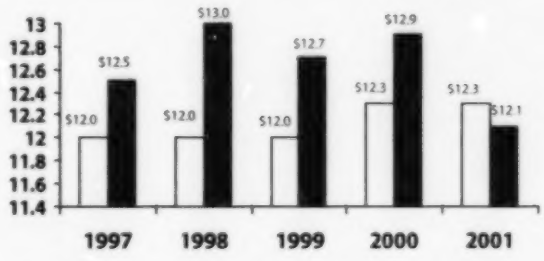
  Fair value is determined in accordance with Note 2(d) to the financial statements and is as follows:

	2001	2000
	(millions)	
Investments		
Endowment Portfolio	$ 7,466.5	$ 5,974.8
Transition Portfolio		
Total deposits, debentures and fixed income securities	4,503.8	6,764.9
Canadian equities	—	35.3
Loans (at cost)	97.4	98.8
Accrued interest and accounts receivable	119.2	142.1
Due from (to) the General Revenue Fund	81.8	(159.1)
Accounts payable	(145.0)	(3.0)
Net assets at fair value	$ 12,123.7	$ 12,853.8
Net assets at cost	$ 12,256.3	$ 12,256.3

TOTAL HERITAGE FUND INCOME
at March 31 ($ millions)



TOTAL HERITAGE FUND NET ASSETS
at March 31 ($ billions) ☐ Cost ■ Fair Value



ACCOUNTING FOR THE HERITAGE FUND

The Heritage Fund is accounted for on a cost basis. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. Investments in loans are recorded at cost less any unearned income and allowance for credit loss.

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. Capital gains or losses are recognized in income when the asset is sold.

Fair or "market" values are provided in schedules to the financial statements for comparison purposes.

- On a market value basis, the Alberta Heritage Savings Trust Fund returned a negative 0.1% over a one-year period versus the cost of the Province's total debt of 11.9%.

RETURN ON COMBINED PORTFOLIO
Period Ending March 31, 2001
(Annualized Return at Market)

	1 yr	2 yr	3 yr	4 yr
Combined Transition/ Endowment Portfolio	-0.1%	4.4%	4.7%	5.8%
Province's total debt	11.9%	7.0%	7.4%	7.7%

- The market value cost for the Province's total debt is up in 2000-01 due to the strengthening of the bond market and the weakening of the Canadian dollar.
- In addition to the annual report and quarterly updates, the Alberta Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund once again undertook a series of public meetings to report on the Fund and answer Albertans' questions.

Business Plan

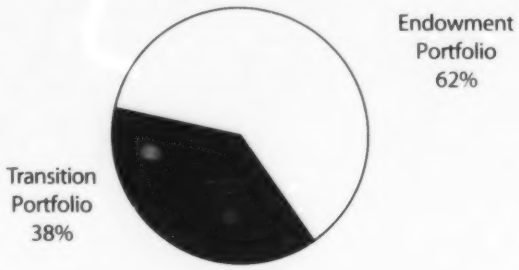
The business plan for the Heritage Fund describes the mission and specific investment objectives of the Fund and how the Fund will be invested, managed and measured. The business plan is reviewed annually and is published as part of the budget. The Investment Operations Committee reviews and makes recommendations regarding the business plan and the investment policies for the Fund. The business plan is then reviewed and approved by the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

The Fund has been structured into two portfolios: the Transition Portfolio and the Endowment Portfolio. Each portfolio has its own investment objective and policy which is closely tied to the goals of the Fund. The three goals of the Fund, as outlined in the plan, remain as follows:

GOAL 1 EARN INCOME TO SUPPORT THE GOVERNMENT'S CONSOLIDATED FISCAL PLAN.

- *Invest Transition Portfolio assets in accordance with the investment industry standard "Prudent Person Rule" which assigns the investment manager responsibility to restrict investment to assets that would be approved by a prudent investor.*
- *Invest in interest-bearing securities.*
- *Maintain sufficient liquidity to accommodate the transfers to the Endowment Portfolio.*
- *Limit investments to the various categories of interest-bearing securities.*
- *The benchmark for the Transition Portfolio is calculated based on 50% of the SC 91-day T-bill Index and 50% of the SC Short-term bond index.*

HERITAGE FUND NET ASSETS (COST BASIS)
at March 31, 2001 ($ millions)
Total: $12,256 million



GOAL 2 MAKE INVESTMENTS IN THE ENDOWMENT PORTFOLIO TO MAXIMIZE LONG TERM FINANCIAL RETURNS.

The Endowment Portfolio focuses on the long term investment horizon. The Endowment Portfolio is being funded gradually over time with assets transferred from the Transition Portfolio. Eventually all Heritage Fund assets will be invested in the Endowment Portfolio. The investment policy for the Endowment Portfolio called for a long term policy allocation of 60% in equities. Further, the policy allocation to foreign equities is 30% of the Endowment Portfolio.

GOAL 3 TO IMPROVE ALBERTANS' UNDERSTANDING AND THE TRANSPARENCY OF THE ALBERTA HERITAGE SAVINGS TRUST FUND.

This goal includes the timely release of quarterly reports and detailed discussion of the Fund within the Annual Report. In addition, the Standing Committee provides for ongoing public consultation through public meetings held throughout the Province on an annual basis. Each Portfolio of the Fund is compared to clearly defined performance benchmarks.

ALBERTA HERITAGE SAVINGS TRUST FUND

ANNUAL REPORT 2001

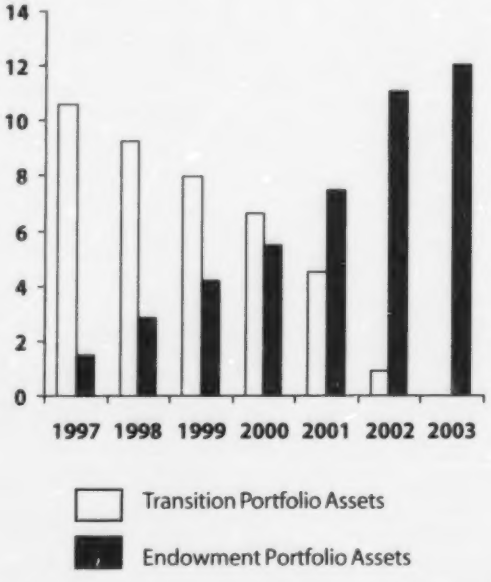
Heritage Fund

Alberta
REVENUE

+1

TRANSFER OF ASSETS OVER TRANSITION PERIOD[1][2]

($ billions)



[1] Based on an annual transfer of $1.2 billion prior to March 31, 2000. $2.4 billion was transferred in 2000-01 and a maximum of $3.6 billion will be transferred in 2001-02. All of the assets of the Transition Portfolio will be transferred by 2003.

[2] Cost value: excludes accrued interest and accounts receivable.

TRANSFER OF INCOME TO THE GENERAL REVENUE FUND

The Alberta Heritage Savings Trust Fund Act provides for the transfer of Heritage Fund income to the General Revenue Fund.

On March 23, 1999, the *Fiscal Responsibility Act* received Royal Assent and, until the accumulated gross debt is eliminated, the Minister of Revenue may retain in the Fund such amounts as the Minister of Revenue considers advisable.

Endowment Portfolio

Introduction

The Endowment Portfolio was established on January 1, 1997 with a transfer from the "old" Heritage Fund of $1.2 billion of investments (at cost). This included equity holdings previously held in the former Commercial Investment Division and a mix of short term and mid term fixed income securities. Since the initial $1.2 billion funding, the Endowment Portfolio has received monthly transfers from the Transition Portfolio. At March 31, 2001, the fair value of the portfolio was $7.5 billion. The Endowment Portfolio has undergone considerable change as the initial assets and subsequent cash flow have been invested to meet the policy objectives.

INVESTMENT OBJECTIVE

The investment objective of the Endowment Portfolio is to optimize long term financial returns subject to an acceptable level of risk. Alberta Revenue operates under the "Prudent Person Rule" by legislation. This assigns to the investment manager the responsibility to restrict investments to assets that would be approved by a prudent investor. By investing to optimize long term returns it is expected that over time, the Heritage Fund will generate higher financial returns than in the past when social and economic objectives were pursued or if only shorter term income objectives were pursued. Similar investment funds with long term investment horizons and an objective to optimize long run returns, invest a significant amount of their assets in equities since equities have historically provided investors with higher total returns (dividends and capital gains) than interest bearing investments. This results in more volatility in capital gains and less interest income. Based on historical experience, a similar asset mix policy would have generated a real rate of return of around 5.0%.

The return in each asset class is compared to a market benchmark. The performance of the Endowment Portfolio will be measured by comparing the actual return of the fund to the return generated by a benchmark portfolio asset mix. It is calculated by multiplying the returns achieved by market indices by the Portfolio asset mix policy (see page 7). A four-year measurement period is used to focus management attention on the longer term. It is expected that over a four-year period, active management would add 0.5% in return over and above what would have been generated by the benchmark portfolio asset mix.

INVESTMENT POLICY

The Endowment Portfolio's investment policy statement is reviewed and recommended annually by the Investment Operations Committee to the Minister of Revenue. The investment policy statement for the Portfolio is then approved by the Minister of Revenue and forms the reference document for Alberta Revenue as the investment manager. The investment policy statement must be consistent with the business plan

of the Fund and it provides the overall investment framework as well as specific policies and guidelines such as:

- a quality constraint for fixed income securities of investment grade (a minimum of a "BBB" credit rating or equivalent)
- investment limits by asset class
- a summary of the legislative authority and governance structure, including specific duties of the investment manager
- requirement to adhere to the "prudent person" rule when making investments
- how investment performance is to be measured and what benchmark is to be used in assessing performance (see below)
- controls with respect to the use of derivatives. Derivative instruments such as swaps can only be used to add value by enhancing fundamental investment strategies and cannot be used for speculative purposes. Over-the-counter derivatives may only be purchased from counterparties with at least a A+ credit rating at the time of purchase.

INVESTMENT STRATEGY

The strategy is to invest in a diversified portfolio to optimize long term returns at an acceptable level of risk. As liquid, marketable securities are transferred from the Transition Portfolio, the securities are reinvested based on the asset allocation policy established for the Portfolio. The asset allocation policy is based on a long run benchmark asset mix of 40% fixed income and 60% equities. The emphasis is on optimizing long term returns associated with equities relative to current income associated with fixed income.

BENCHMARK MEASUREMENT INDEX

Scotia Capital 91-Day T-Bill Index
(SC 91-Day T-Bill Index)
Reflects the performance of the Canadian money market as measured by investments in 91-day Treasury Bills.

Scotia Capital Universe Bond Index
(SC Universe Bond Index)
Covers marketable Canadian bonds with terms to maturity of more than one year.
The purpose of this index is to reflect performance of the broad Canadian bond market in a manner similar to the way the TSE 300 represents the Canadian equity market.

Toronto Stock Exchange 300 Total Return Index
(TSE 300 Index)
An index of 300 stocks, in fourteen subgroups, listed on the Toronto Stock Exchange designed to represent the Canadian equity market. It is a capitalization-weighted index calculated on a total return basis.

Morgan Stanley Capital International World Index (excluding Canada)
(MSCI World Index)
An index of over 1,470 stocks on 23 stock exchanges around the world designed to represent an international equity market (excluding Canada).
The index is calculated on a total return basis, which includes investment of gross dividends before deduction of withholding taxes. The index covers about 60% of the issues listed on the exchanges of the countries included.

Russell Canadian Property Index (Russell Index)
An index comprised of institutionally held real estate investments consisting of over 1,100 properties situated across Canada.

ASSET CLASS ALLOCATION

Asset Class	Policy Benchmark March 31 2001	Policy Benchmark March 31 2000	Benchmark Measurement Index
Deposits	3%	3%	SC 91-Day T-Bill Index
Fixed Income Securities	37%	37%	SC Universe Bond Index
Total Deposits and Fixed Income Securities	40%	40%	
Equities			
Canadian Equities	23%	25%	TSE 300 Index
Foreign Equities	30%	30%	MSCI World Index
Real Estate	7%	5%	Russell Canadian Property Index
Total Real Estate and Equities	60%	60%	

To manage the equity exposure and further enhance the potential returns, the foreign equity benchmark target is 30% of the Portfolio's market value. The foreign equity exposure increases the diversification of the fund across countries, industries and individual companies. In addition, the Fund's exposure to enhanced growth opportunities is increased and provides the potential for higher long run returns.

External investment managers are used in addition to the Investment Management Division to take advantage of specialized knowledge and expertise. This has made it possible to invest in specific asset classes such as Canadian "small-cap" equities, U.S. equities, global equities and diversify investment strategies within the Canadian "large cap" equity component.

ASSET MIX

On March 31, 2001, deposits and fixed income instruments accounted for 42.1% of total investments in the Endowment Portfolio and equity investments and real estate accounted for 57.9%.

During the year, the cost of investments held in the Endowment Portfolio increased by the following amounts:

	(millions)
Deposits and fixed-income securities	$ 817.6
Foreign equities	805.4
Canadian equities	720.5
Real estate	16.9
Total increase in investments at cost	2,360.4
Decrease in net current liabilities	39.6
Total Transfers from Transition Portfolio	$ 2,400.0

INVESTMENT INCOME

The Endowment Portfolio earned $375.7 million of investment income during the year, of which $243.7 million was realized capital gains and $132.0 million was interest, dividend and other income.

ENDOWMENT PORTFOLIO BREAKDOWN OF INVESTMENTS

as at March 31, 2001

($ millions)

	2001			2000		
	Cost	Fair Value	%	Cost	Fair Value	%
Deposits	$ 178.2	$ 178.2	2.4	$ 103.4	$ 103.4	1.7
Fixed Income Securities						
Public Fixed Income Securities	2,663.4	2,618.1	35.0	1,874.9	1,797.9	30.1
Floating Rate Note Pool	36.7	36.4	0.5	48.9	48.5	0.8
Private Mortgage Pool	318.8	310.4	4.2	293.0	279.9	4.7
Total Deposits and Fixed Income Securities	3,197.1	3,143.1	42.1	2,320.2	2,229.7	37.3
Equities						
Canadian Equities	1,541.5	1.646.9	22.0	880.3	1,475.9	24.7
U.S. Equities	1,338.8	1,192.1	16.0	912.6	915.5	15.3
Global Equities	1,276.3	1,096.1	14.7	897.1	1,000.0	16.8
Real Estate	363.1	388.3	5.2	346.2	353.7	5.9
Total Equities	4,519.7	4,323.4	57.9	3,036.2	3,745.1	62.7
Total	$ 7,716.8	$ 7,466.5	100.0	$ 5,356.4	$ 5,974.8	100.0

CAPITAL MARKETS IN REVIEW

Most capital markets demonstrated negative returns for the year ending March 2001 as shown by the table below. Fixed-income markets outperformed equity markets. The U.S. market, as measured by the Standard and Poor's 500 Index, showed a return of negative 15% for the fiscal year. Canadian and foreign equity markets also showed negative results. The Canadian Markets returned negative 18.6%, followed by the Pacific Basin, which returned negative 26.5%. Emerging markets returned negative 30.5%. Over a four-year period, the equity markets showed positive returns. Fixed income markets, faced with falling interest rates out-performed the equity markets. Canadian treasury bills delivered a 5.7% return while Canadian bonds (as measured by the Scotia Capital Universe Bond Index) returned 8.7%.

RATES OF RETURN

(percentages)

Benchmark Returns	Annual Returns 2001	Annual Returns 2000	4 Year Return
Scotia Capital 91-Day T-Bill Index	5.7	4.7	4.7
Scotia Capital Universe Bond Index	8.7	1.3	7.4
Toronto Stock Exchange (TSE) 300 Index	-18.6	45.5	8.4
S&P 500 (in Cdn $)	-15.0	13.2	16.6
Morgan Stanley World Index (Ex. Canada)	-18.7	16.1	11.5
Morgan Stanley Europe (in Cdn $)	-16.2	13.7	11.6
Morgan Stanley PacBasin (in Cdn $)	-26.5	35.4	0.7
Morgan Stanley Emerging Markets (in Cdn $)	-30.5	45.5	-6.7
Russell Canadian Property Index	11.8	7.0	14.1

INVESTMENT PERFORMANCE

ENDOWMENT PORTFOLIO PERFORMANCE

Period Ending March 31, 2001
(Annualized)

		Actual Fund Market Return					Benchmark Portfolio Return				
	Weightings at March 31, 2001	1 year	2 year	3 year	4 year		Benchmark Weight	1 year	2 year	3 year	4 year
Short-term Fixed Income	2.4%	5.7%	5.5%	5.4%	5.0%	SC 91-Day T-Bill Index	3%	5.7%	5.2%	5.1%	4.7%
Long-term Fixed Income	39.7%	9.5%	5.5%	6.0%	7.1%	SC Universe Bond Index	37%	8.7%	4.9%	5.6%	7.4%
Canadian Equities (Public)	22.0%	-16.0%	7.6%	1.6%	9.1%	TSE 300 Index	23%	-18.6%	8.8%	1.7%	8.4%
Foreign Equities	30.7%	-18.8%	1.7%	6.3%	11.7%	MSCI World Index (excl. Canada)	30%	-18.7%	-2.9%	4.4%	11.5%
Real Estate	5.2%	9.7%	7.7%	9.6%	12.5%	Russell Index	7%	11.8%	10.8%	12.4%	14.1%
Total Portfolio	100%	-6.1%	5.3%	5.1%	8.9%	Total Portfolio	100%	-6.2%	4.3%	4.4%	8.6%

The one year performance of the Endowment Portfolio of negative 6.1% exceeded the policy benchmark return of negative 6.2%. The Endowment Portfolio was overweight in bonds, which was the best performing asset class for most of the year. The Portfolio was also overweight in foreign equities which was the lowest performing asset class.

In terms of performance within the asset classes, the fixed income components of the Portfolio performed ahead of their respective benchmarks. The Canadian equity component out-performed the benchmark during the year but the out-performance was off-set by the under-performance in the foreign equity component.

FIXED INCOME

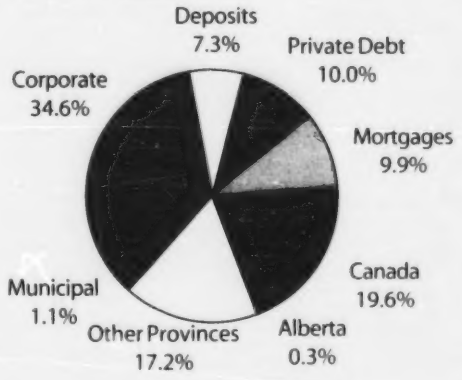
When bond yields fall the price of bonds decline and, as a result, the bond market as measured by the Scotia Capital Universe Bond Index recorded a 8.7% return for the year.

The Fund's short term component returned 5.7% for the year, equal to the Scotia Capital 91-Day T-bill Index. The focus is on maintaining a liquid portfolio of high quality marketable securities. The overall term to maturity will not exceed 180 days and at least 40% of the portfolio will be government (federal and provincial) and government guaranteed securities.

The fixed income component is invested in a broadly diversified pool of publicly traded bonds, privately issued bonds and mortgages. The Fund's long-term fixed income return was 9.5%, compared to the benchmark Scotia Capital Universe Bond Index of 8.7%. The Fund's positive performance was due to a higher weighting in better performing corporate bonds and a duration slightly longer then the Scotia Mcleod Universe.

DISTRIBUTION OF THE ENDOWMENT PORTFOLIO'S DEPOSITS AND MARKETABLE FIXED INCOME HOLDINGS

Fair value as at March 31, 2001
Total: $3,143.1 million



CANADIAN EQUITY

The TSE 300 Index returned negative 18.6% during the year. In total, the Fund's Canadian equity component returned negative 16.0%, 260 basis points better than the benchmark.

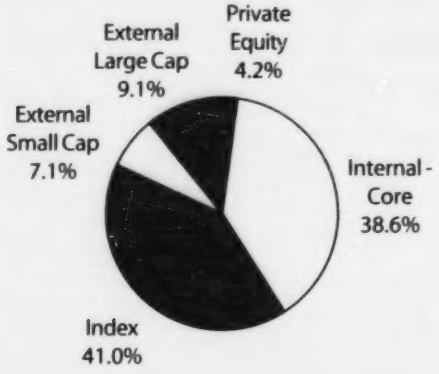
The Canadian equity component is based on a diversified management structure that includes both indexed and actively managed mandates. There are two internally managed mandates. One is indexed to the TSE300 and the other is an active mandate with

the same benchmark. The indexed portfolio returned negative 18.2% versus the TSE 300 return of negative 18.6%. The active Canadian equities consist of external and internal mandates. The internal active mandate underperformed the TSE300, returning negative 23.2% due to an overweight position in growth stocks, and an underweight in defensive stocks. The externally managed mandates outperformed the benchmark as a whole owing to an underweight in growth stocks. Growth stocks, and technology stocks in particular were the weakest performers in all major global indexes for the year ending March 2001.

MANAGEMENT STRUCTURE IN CANADIAN EQUITIES

Fair value as at March 31, 2001

Total: $1,646.9 million



TOP TEN CANADIAN EQUITY HOLDINGS

Company	% Holding
Nortel Networks	8.7%
Royal Bank	3.8%
BCE Inc.	3.5%
Toronto Dominion Bank	3.3%
Bombardier	2.8%
Bank of Nova Scotia	2.7%
Canadian Pacific Ltd.	2.6%
Bank of Montreal	2.5%
Manulife Financial Corp.	2.4%
Canadian Imperial Bank of Commerce	2.4%

FOREIGN EQUITY

The foreign equity markets performed poorly in 2000-01. Overall, the Fund returned negative 18.8% versus a benchmark return of negative 18.7% for the Morgan Stanley World Index.

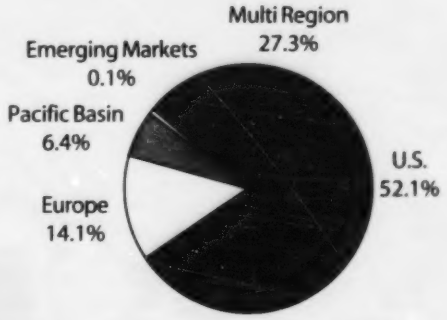
Within the foreign equity mandate, US active managers outperformed their benchmark owing to an underweight in technology stocks. European active managers outperformed their market with positive stock selection and a neutral weight to growth stocks. Managers in the Far East underperformed significantly due to an overweight in growth stocks and the telecommunications sector in particular.

The foreign equity exposure is broadly diversified across all markets. Relative to the policy benchmark of an equal weight between US and international equities, the Fund has a slight underweight in the US.

ENDOWMENT PORTFOLIO'S DISTRIBUTION OF FOREIGN EQUITY

Fair value as at March 31, 2001

Total: $2,288.2 million



ENDOWMENT PORTFOLIO'S TEN LARGEST EQUITY HOLDINGS BY COUNTRY

Fair value at March 31, 2001 ($ millions)

Total:

Canada	$1,647
United States	$1,191
United Kingdom	$230
Japan	$229
France	$105
Germany	$89
Netherlands	$75
Switzerland	$65
Italy	$45
Spain	$41

REAL ESTATE

Returns in real estate were more modest in 2000-01. The Russell Canadian Property Index is estimated to have returned 11.8% for the year, while the Fund's real estate return was 9.7%. The difference is attributable to the calculation of return. The benchmark is calculated on a gross basis and excludes expenses such as capital expenditures and transaction costs. The Fund return is calculated on a net basis fully reflecting all costs and expenses.

Transition Portfolio

Introduction

During the 2000-01 fiscal year, the Transition Portfolio transferred $2.4 billion to the Endowment Portfolio. At March 31, 2001, the fair value of the Transition Portfolio's investments was $4.6 billion (including loans totaling $97.4 million at cost) compared to a cost of $4.5 billion.

TRANSITION PORTFOLIO BREAKDOWN OF INVESTMENTS
AS AT MARCH 31, 2001

($ millions)

	2001			2000		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash	$ 85.7	$ 85.7	1.9	$ 84.3	$ 84.3	1.2
Marketable Fixed Income Securities	4,050.0	4,090.9	88.9	6,170.3	6,088.5	88.3
Policy Investments						
Provincial Corporation Debentures	250.3	327.2	7.1	512.5	592.1	8.6
Loans (at cost)	97.4	97.4	2.1	98.8	98.8	1.4
Canadian Equities	—	—	—	54.0	35.3	0.5
Total Policy Investments	347.7	424.6	9.2	665.3	726.2	10.5
Total	$ 4,483.4	$ 4,601.2	100.0	$ 6,919.9	$ 6,899.0	100.0

INVESTMENT OBJECTIVE

The legislated investment objective of the Transition Portfolio is to make investments with the objective of supporting the government's short term to medium term income needs as reflected in the government's consolidated fiscal plan. The investment performance benchmark for the Transition Portfolio for fiscal 2000-01 is calculated based on 50% of the SC 91-day T-bill Index and 50% of the SC Short-term Bond Index.

INVESTMENT POLICY

The Transition Portfolio's investment policy statement is reviewed and recommended annually by the Investment Operations Committee to the Minister of Revenue. The investment policy statement for the Portfolio is then approved by the Minister of Revenue and forms the reference document for Alberta Revenue as the investment manager. The investment policy statement must be consistent with the business plan of the Fund and it provides the overall investment framework as well as specific policies and guidelines such as:

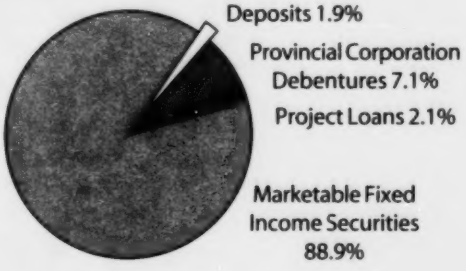
- a quality constraint for fixed income securities of investment grade (a minimum of a "BBB" credit rating or equivalent)
- investment limits for the various categories of fixed income securities

- controls to minimize the deviation of the Portfolio's duration from that of the Province's debt portfolio
- a summary of the legislative authority and governance structure, including specific duties of the investment manager
- requirement to adhere to the "prudent person" rule when making investments
- how investment performance is to be measured and what benchmark is to be used in assessing performance (see below)
- controls with respect to the use of derivatives. Derivative instruments such as swaps can only be used to add value by enhancing fundamental investment strategies and cannot be used for speculative purposes. Over-the-counter derivatives may only be purchased from counterparties with at least an A+ credit rating at the time of purchase.

INVESTMENT STRATEGY

To support the Province's revenue needs, the Transition Portfolio is required to generate a stable source of income. Consequently, it is important the assets be revenue generating, and not exposed to significant credit risk. Additionally, due to the transfer program, assets need to be liquid (easily traded) so as to facilitate the monthly transfers to the Endowment Portfolio. This is accomplished by having a high quality portfolio of bonds and money market securities.

TRANSITION PORTFOLIO INVESTMENT BREAKDOWN
(% of market) at March 31, 2001
Total: $4,601.2 million

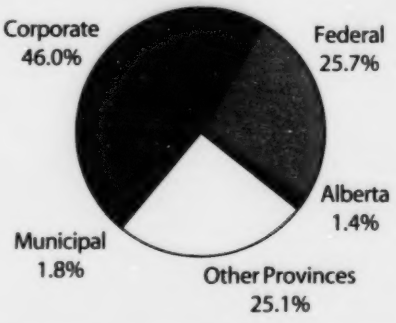


The bulk of assets in the Transition Portfolio continue to be in deposits and marketable fixed income securities totaling 90.8%. Provincial debentures constitute 7.1% and project loans are 2.1% of the Transition Portfolio.

Project loans have been further reduced. On a cost basis, the value of project loans is now $97.4 million or 2.1% of the Transition Portfolio. These loans are Ridley Grain Ltd. ($91.3 million) and Vencap Acquisition Corporation ($6.1 million).

In addition, $262.2 million of Provincial corporation debentures were repaid or redeemed. The Fund's investment in provincial corporation debentures was reduced from $512.6 million at the beginning of the year to $250.4 million at March 31, 2001.

MARKETABLE FIXED INCOME SECURITIES BREAKDOWN
(% of market) at March 31, 2001
Total: $4,090.9 million



Corporate securities comprise 46.0% of the Transition Portfolio's marketable fixed income securities. Federal government bonds constitute another 25.7% of the marketable fixed income securities. The Transition Portfolio's holdings of other provincial governments' bonds is 25.1% of the total fixed income investments.

PERFORMANCE

For the current fiscal year 2000-01, the one year market return for the Transition Portfolio was 8.2% compared to the benchmark of 7.3%.

The Transition Portfolio outperformed the transition benchmark due to:

- An overweight position in better performing provincial bonds, AAA/AA corporate bonds and asset backed securities.

- Duration slightly longer than the benchmark duration.

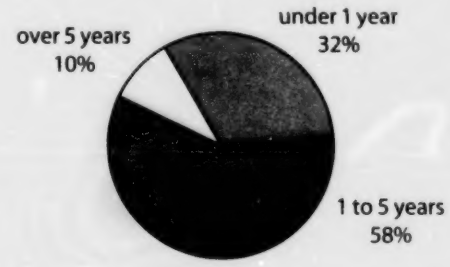
TRANSITION PORTFOLIO PERFORMANCE
Period Ending March 31, 2001
(Annualized Return at Market)

	1 yr	2 yr	3 yr	4 yr
Transition Portfolio	8.2%	5.6%	5.5%	5.8%
Benchmark	7.3%	5.1%	5.4%	5.9%

INVESTMENT INCOME

During the year, the Transition Portfolio generated investment income totalling $332.0 million. Interest. dividends and other income totalling $384.4 million was offset by realized capital losses of $52.4 million.

TERM STRUCTURE OF FIXED INCOME SECURITIES
as at March 31, 2001 (principle amount)



Administrative Expenses

Administrative expenses include investment management, cash management, custodial and other expenses. External management and custodial fees are deducted directly from the income of the externally managed pooled funds. Internal administrative expenses are deducted from the internally managed pooled funds and directly from the Endowment Portfolio and the Transition Portfolio.

In the 2000-01 year, the administrative expenses charged directly to the Fund were $1.5 million ($0.8 million in the Endowment Portfolio and $0.7 million in the Transition Portfolio) compared to $1.6 million in the 1999-2000 year ($0.7 million in the Endowment Portfolio and $0.9 million in the Transition Portfolio).

The Fund's total administrative expenses for the year ending 2000-01, including amounts deducted directly from the investment income of the pooled funds, amounted to $8.1 million compared to $6.4 million in the 1999-2000 year.

ADMINISTRATIVE EXPENSES BREAKDOWN
for the year ended March 31, 2001 ($ millions)

	2001	2000
Endowment Portfolio		
direct	$ 0.8	$ 0.7
externally managed pools	5.4	4.0
internally managed pools	1.2	0.8
	7.4	5.5
Transition Portfolio		
direct	0.7	0.9
	$ 8.1	$ 6.4
Expenses as a percent of net assets at fair value	0.067%	0.050%

The increase in administrative expenses is related to the transfers from the Transition Portfolio to the Endowment Portfolio. The Endowment Portfolio is more expensive to administer because it is predominantly invested in equities, a large portion of which are foreign equities which are externally managed.

Glossary

ACCRUED INTEREST
Interest income that has been earned but not yet paid in cash.

BOND/DEBENTURE
A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

BOOK VALUE
See Cost Value.

CAPITAL GAIN
The market value received on sale of an asset beyond its book value or purchase price. If an asset is bought for $50 and sold for $75, the realized capital gain (profit) is $25.

COST VALUE
The value for which an asset was acquired.

DEPOSITS
Liquid, short term investments. A cash equivalent.

DURATION (ALSO CALLED MODIFIED DURATION)
Modified duration is the weighted average term to maturity of the security's cash flows (i.e., interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.

FAIR VALUE
Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is similar to market value.

FIXED INCOME SECURITIES
Interest bearing investments such as bonds or debentures and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

GENERAL REVENUE FUND (GRF)
The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)
These are accounting guidelines, formulated by the CICA's (Canadian Institute of Chartered Accountants) Accounting Standards Committee, that govern how businesses report their financial statements to the public. They are the principles under which the financial statements of the Heritage Fund and other provincial funds are prepared. These principles help ensure fair presentation of the financial affairs of the Province.

INCOME
The return from an investment. Can be derived from interest, dividends or appreciation in the value of the asset that is realized when the asset is sold.

INTERNAL RATE OF RETURN
The internal rate of return is the average rate earned by each and every dollar invested during the period. This rate is influenced not only by the movements in financial markets and decisions made by portfolio managers, but also by the timing and size of the cash inflows and outflows and the beginning and ending book or market values. Since the internal rate of return weights the final overall return by the size of the investment and the timing and size of cash flows in each subperiod, the method produces inappropriate results if the purpose is to compare the performance of two investment funds. For that purpose, the investment industry standard is to use time-weighted rates of return (see "Market (Value) Rate of Return").

INVESTMENT INCOME
Investment income is income from realized capital gains, interest, dividends, security lending and swaps.

INVESTMENT PORTFOLIOS
A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LIQUIDITY
Describes the ease with which an asset can be turned into cash and the certainty of the value it will fetch.

MARKET VALUE
See Fair Value.

MARKET (VALUE) RATE OF RETURN
The market value rate of return measures income (dividends, cash interest and accrued interest) and capital appreciation (or capital depreciation). The method used to calculate the return is the time-weighted method with quarterly valuations. Time-weighted rates of return are designed to eliminate the effect that the size and timing of cash flows has on the **internal rate of return** since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

MARKETABLE SECURITY
An investment for which there is usually a ready market.

MID-TERM INVESTMENT
A fixed income investment (bonds, debentures, treasury bills or discount notes) that matures in one to five years from the date of acquisition.

MODIFIED DURATION
A measure of price volatility of fixed income securities (i.e., bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY
A fixed income security that matures within one year from the date of acquisition.

NET INCOME
The amount of earnings remaining after deducting expenses.

NOMINAL RATE OF RETURN
A measure of return that does not exclude or net out the effect of inflation (see *Real Rate of Return*).

PAR VALUE
A value set as the face amount of a security, typically expressed as multiples of $100 or $1,000. Bondholders receive par value for their bonds on maturity.

PORTFOLIO
The collection of investment securities held by an investor or a subset thereof.

PROVINCIAL CROWN CORPORATIONS
Special purpose companies which carry out government programs. Provincial Crown corporations are used because the nature of the programs are different than those delivered through government departments. The provincial Crown corporations discussed in this report generally offer financial services on a partial or full cost-recovery basis. Alberta Opportunity Company and the Alberta Social Housing Corporation are examples of Alberta provincial Crown corporations.

REAL VALUE OR REAL RATE OF RETURN
A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED/UNREALIZED
Terms generally used to describe capital gains or losses. A gain or loss is realized when an asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain or loss.

SECURITY
Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT
An investment with a maturity date of less than one year.

TERM-TO-MATURITY
The number of years left until a bond matures.

VOLATILITY
In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.

STATEMENT OF INVESTMENT RETURNS OF THE TRANSITION PORTFOLIO AND ENDOWMENT PORTFOLIO FOR THE YEAR ENDED MARCH 31, 2001

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Auditor's Report on Investment Returns

TO THE MINISTER OF REVENUE

I have audited the Statement of Investment Returns of the Alberta Heritage Savings Trust Fund for the year ended March 31, 2001. This statement is the responsibility of the Fund's management. My responsibility is to express an opinion on this statement based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation.

In my opinion, this statement presents fairly, in all material respects, the investment returns of the Fund for the year ended March 31, 2001 in accordance with the disclosed basis of accounting as described in Note 2 to the statement.

Peter Valentine

FCA
Auditor General

Edmonton, Alberta
May 18, 2001

STATEMENT OF INVESTMENT RETURNS

For the year ended March 31, 2001

	2001	2000
	(Percent)	
Transition Portfolio		
Short term fixed-income	6.1	4.8
Long term fixed-income	9.0	3.1
Policy loans (Note 2)	11.0	4.2
Equities (Note 3)	40.1	(38.1)
Total Return	**8.2**	**3.0**
Endowment Portfolio		
Short term fixed-income	5.7	5.3
Long term fixed-income	9.5	1.7
Real estate	9.7	5.7
Canadian equities	(16.0)	37.8
Foreign equities	(18.8)	27.3
Total return	**(6.1)**	**18.0**
Total Rate of Return for the Fund	**(0.1)**	**9.0**

NOTES TO THE STATEMENT OF INVESTMENT RETURNS OF THE TRANSITION PORTFOLIO AND THE ENDOWMENT PORTFOLIO

For the year ended March 31, 2001

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Savings Trust Fund operates under the authority of the Alberta Heritage Savings Trust Fund Act (the "Act"), Chapter A-27.01, Revised Statutes of Alberta 1980, as amended.

NOTE 2 SIGNIFICANT ACCOUNTING POLICY

Rates of return have been calculated using the time-weighted method with monthly valuations.

The rate of return on investment measures the total proceeds received from an investment per dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized). The investment industry uses time-weighted rates of return when comparing the returns of funds with other funds or indices. The time-weighted rate of return is designed to minimize the effect that the size and timing of cash flows has on the internal rate of return, since the pattern of cash flows vary significantly among funds.

According to the Alberta Heritage Savings Trust Fund Business Plan, the performance of both the Transition Portfolio and the Endowment Portfolio are to be measured on a market value basis. Investment returns for the project loans are based on cost values.

NOTE 3 EQUITIES

The 2001 investment return for equities held in the Transition Portfolio are for the seven months ended October 31, 2000. All equities held in the Transition Portfolio were sold by November 2, 2000.

NOTE 4 APPROVAL OF STATEMENT

The Statement of Investment Returns has been approved by the Deputy Minister of Revenue.

NOTE 5 GOVERNMENT RESTRUCTURING

On March 15, 2001, the government announced new ministry structures. As a result, responsibility for the Fund was transferred to the Ministry of Revenue.

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FINANCIAL STATEMENTS

Auditor's Report

TO THE MINISTER OF REVENUE

I have audited the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 2001 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Peter Valentine

FCA
Auditor General

Edmonton, Alberta
May 18, 2001

FINANCIAL STATEMENTS

BALANCE SHEET

March 31, 2001 (thousands)

	2001	2000
Assets		
Portfolio investments:		
Endowment portfolio (Schedule 1)	$ 7,716,884	$ 5,356,412
Transition portfolio (Schedule 2)	4,483,416	6,919,980
Due from the General Revenue Fund	81,824	—
Accrued interest receivable	77,276	119,863
Receivable from sale of investments	41,934	22,251
	$ 12,401,334	$ 12,418,506
Liabilities and fund equity		
Liabilities:		
Accrued administration expense	$ 52	$ 128
Liabilities for investment purchases	144,963	2,945
Due to the General Revenue Fund	—	159,114
	145,015	162,187
Fund equity (Note 5):		
Endowment portfolio	7,648,649	5,248,649
Transition portfolio	4,607,670	7,007,670
	12,256,319	12,256,319
	$ 12,401,334	$ 12,418,506

The accompanying notes and schedules are part of these financial statements.

STATEMENT OF OPERATIONS

March 31, 2001 (thousands)

	2001		2000
	Budget	Actual	Actual
Investment income (Note 6)			
Endowment portfolio	$ 461,200	$ 375,710	$ 679,470
Transition portfolio	408,100	332,019	491,314
	869,300	707,729	1,170,784
Expenses			
Direct administrative expenses (Note 7)	2,400	1,554	1,670
Net income (Note 6)	866,900	706,175	1,169,114
Transfers to the General Revenue Fund	866,900	706,175	939,114
Net change in fund equity (Note 5)	—	—	230,000
Fund equity at beginning of year	12,256,319	12,256,319	12,026,319
Fund equity at end of year	$ 12,256,319	$ 12,256,319	$ 12,256,319

The accompanying notes and schedules are part of these financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended March 31, 2001 (thousands)

	2001	2000
Operating transactions		
Net income	$ 706,175	$ 1,169,114
Non-cash items included in net income	(86,255)	(177,188)
	619,920	991,926
Decrease (Increase) in receivables	22,904	(3,961)
Increase (Decrease) in payables	141,942	(122)
Cash provided by operating transactions	784,766	987,843
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	12,629,363	6,419,163
Purchase of investments	(12,390,895)	(6,538,754)
Cash provided by (applied to) investing transactions	238,468	(119,591)
Transfers		
Transfers to the General Revenue Fund	(706,175)	(939,114)
Increase (decrease) in amounts due to the General Revenue Fund	(240,938)	91,102
Cash applied to transfers	(947,113)	(848,012)
Increase in cash	76,121	20,240
Cash at beginning of year	187,754	167,514
Cash at end of year	$ 263,875	$ 187,754
Consisting of Deposits in the Consolidated Cash Investment Trust Fund		
Endowment Portfolio (Schedule 1)	$ 178,204	$ 103,421
Transition Portfolio (Schedule 2)	85,671	84,333
	$ 263,875	$ 187,754

The accompanying notes and schedules are part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2001

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the Alberta Heritage Savings Trust Fund Act (the Act), Chapter A-27.01, Revised Statutes of Alberta 1980, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

Investments of the Fund are held in an Endowment Portfolio and a Transition Portfolio. The Endowment Portfolio has the objective of maximizing long term financial returns. The Transition Portfolio has the objective of providing income support to the Government's consolidated fiscal plan over the short term to medium term. The Fund's business plan provides that all assets in the Transition Portfolio will be transferred to the Endowment Portfolio by March 31, 2003.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio investments

Fixed income securities, mortgages, equities and real estate investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any unearned revenue and allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount. Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment in fixed-income securities, mortgages, equities and real estate that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

Gains and losses arising as a result of disposal of investments are included in the determination of investment income. Income and expense from derivative contracts are included in investment income.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

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Note 2 (continued)

(d) Investment Valuation

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed income securities and equities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by management.

(iv) Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

(v) Fair values of loans are not reported due to there being no organized financial market for the instruments and it is not practical within constraints of timeliness or cost to estimate the fair values with sufficient reliability.

(vi) The fair values of deposits, receivables, accrued interest and payables are estimated to approximate their book values.

(vii) The fair values of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps are valued based on discounted cash flows using current market yields.

(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

(iv) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

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NOTE 3 RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The *Standing Committee on the Alberta Heritage Savings Trust Fund* reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2000-2001 business plan limits investments of the Transition Portfolio to include only fixed-income securities other than securities transferred from the previous structure and proposes the following asset mix policy for the Endowment Portfolio:

Fixed income securities	30% to 50%
Equities	70% to 50%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) A stock index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2001:

	2001		2000	
	Notional Amount	Fair Value(a)	Notional Amount	Fair Value(a)
	(thousands)			
Equity index swap contracts	$ 335,850	$ (32,415)	$ 507,176	$ 32,136
Bond index swap contracts	154,001	(769)	224,232	2,589
Forward foreign exchange contracts	142,373	(366)	106,675	(486)
Interest rate swap contracts	117,965	(4,352)	138,928	(2,007)
Equity index futures contracts	683	(11)	1,139	160
	750,872	$ (37,913)	978,150	$ 32,392
Cross-currency interest rate swap contracts(b)	497,806		487,632	
	$ 1,248,678		$ 1,465,782	

(a) The method of determining the fair value of derivative contracts is described in note 2(e).
(b) Cross-currency swaps are valued as a package which includes the underlying security. As at March 31, 2001, the combined fair value of cross-currency interest rate swaps and underlying securities amounted to $503,753,000 (March 31, 2000: $487,819,000).

All derivative contracts mature within one year except for bond index swaps, cross-currency swaps and interest rate swaps with a notional value of $294,850,000 (March 31, 2000: $446,467,000) that mature between 1 and 3 years and $208,033,000 (March 31, 2000: $206,111,000) that mature over 3 years.

NOTE 5 FUND EQUITY

By no later than 2003, all assets of the Transition Fund will be transferred to the Endowment Fund. For the year ended March 31, 2001, the Lieutenant Governor in Council approved the transfer of assets with a book value of not less than $1.2 billion and not more than $2.4 billion. Commencing in 2001-02, the Lieutenant Governor in Council has approved an increase in the transfer of assets from the Transition Fund to the Endowment Fund of not more than $3.6 billion.

Section 8(2) of the *Alberta Heritage Savings Trust Fund Act (the Act)* states that the net income of the Heritage Fund less any amount retained in the Fund to maintain its value shall be transferred to the General Revenue Fund annually in a manner determined by the Provincial Treasurer. Section 11(5) of the Act states that for fiscal years subsequent to 1999 and until the accumulated debt is eliminated in accordance with the *Fiscal Responsibility Act*, the Provincial Treasurer is not required to retain any income in the Heritage Fund to maintain its value, but may retain such amounts as the Provincial Treasurer considers advisable.

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NOTE 6 NET INCOME

	Endowment Portfolio	Transition Portfolio	2001 Total	2000 Total
			(thousands)	
Deposit and fixed-income securities				
Deposits in the Consolidated Cash Investment Trust Fund	$ 6,824	$ 3,553	$ 10,377	$ 7,349
Public fixed-income securities, directly held:				
Government of Canada, direct and guaranteed	1,401	52,135	53,536	111,245
Alberta, direct and guaranteed	—	4,775	4,775	8,566
Other provincial, direct and guaranteed	—	72,442	72,442	126,651
Municipal	—	4,407	4,407	4,370
Corporate	1,360	135,230	136,590	151,524
Security lending income	38	258	296	386
Provincial corporations debentures	—	48,456	48,456	73,204
Loans	—	17,564	17,564	4,643
Canadian Dollar Public Bond Pool	159,131	—	159,131	89,771
Private Mortgage Pool	21,380	—	21,380	21,074
Floating Rate Note Pool	3,480	—	3,480	11,461
	193,614	338,820	532,434	610,244
Equities				
Public Canadian equities, directly held	139,346	(6,801)	132,545	179,041
Canadian Pooled Equity Fund	69,557	—	69,557	19,200
External Managers Fund (International)	30,225	—	30,225	143,713
External Managers Fund (Canadian)	17,203	—	17,203	17,376
Private Real Estate Pool	17,090	—	17,090	20,232
Private Equity Pool	1,651	—	1,651	1,209
Private Equity Pool (98)	650	—	650	(49)
Security lending income	—	—	—	141
Global Structured Equity Pooled Fund	—	—	—	23,541
United States Pooled Equity Fund	(371)	—	(371)	(177)
Swaps, direct	(1,547)	—	(1,547)	(13,376)
US Structured Equity Pool	(4,188)	—	(4,188)	6,152
External Managers Fund (United States)	(8,609)	—	(8,609)	77,300
US Passive Equity Pooled Fund	(9,254)	—	(9,254)	30,770
EAFE Structured Equity Pool	(24,932)	—	(24,932)	55,467
Domestic Passive Equity Pooled Fund	(44,725)	—	(44,725)	—
	182,096	(6,801)	175,295	560,540
Investment income	375,710	332,019	707,729	1,170,784
Direct administrative expenses (Note 7)	(820)	(734)	(1,554)	(1,670)
Net Income	$ 374,890	$ 331,285	$ 706,175	$ 1,169,114

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools. (see Note 7).

Investment income from the Endowment portfolio includes a net gain from disposal of investments totalling $243,668,000 (2000: $405,831,000). Investment income from the Transition portfolio includes a net loss of $52,426,000 (2000: $4,922,000 net gain).

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NOTE 7 ADMINISTRATIVE EXPENSES

Administrative expense includes investment management, cash management, safekeeping costs and other expenses charged on a cost-recovery basis directly from the Department of Treasury. The Fund's total administrative expense for the year, including amounts deducted directly from investment income of pooled funds is as follows:

	2001	2000
	(thousands)	
Direct fund expenses (Note 6)	$1,554	$1,670
Externally managed investment pools	5,379	3,982
Internally managed investment pools	1,149	763
Total	$8,082	$6,415
Expenses as a percentage of net assets at fair value	0.067%	0.050%

NOTE 8 COMPARATIVE FIGURES

Certain 2000 figures have been reclassified to conform to 2001 presentation.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Revenue.

NOTE 10 GOVERNMENT RESTRUCTURING

On March 15, 2001, the government announced new ministry structures. As a result, responsibility for the Fund was transferred to the Ministry of Revenue.

FINANCIAL STATEMENTS

SCHEDULE OF ENDOWMENT PORTFOLIO INVESTMENTS

SCHEDULE 1

March 31, 2001 (thousands)

	2001			2000		
	Cost	Fair Value	%	Cost	Fair Value	%
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 178,204	$ 178,204	2.4	$ 103,421	$ 103,421	1.7
Fixed-income securities						
Public, directly held (b)						
Corporate	188,055	188,033	2.5	—	—	—
Government of Canada, guaranteed	25,894	26,062	0.3	26,560	25,560	0.4
Canadian Dollar Public Bond Pool (c)	2,449,498	2,404,033	32.2	1,848,383	1,772,350	29.7
Private Mortgage Pool (d)	318,808	310,398	4.2	292,952	279,892	4.7
Floating Rate Note Pool (e)	36,702	36,449	0.5	108,206	107,864	1.8
Total deposit and fixed-income securities	3,197,161	3,143,179	42.1	2,379,522	2,289,087	38.3
Canadian equities						
Domestic Passive Equity Pooled fund (f)	532,863	674,804	9.0	—	—	—
Canadian Pooled Equity Fund (g)	693,550	635,305	8.5	84,818	101,505	1.7
External Managers Fund (Canadian) (h)	244,756	267,000	3.6	227,143	267,400	4.5
Private Equity Pool (98) (i)	58,724	58,720	0.8	32,022	32,033	0.6
Private Equity Pool (i)	11,645	11,082	0.1	12,489	14,645	0.3
Public, directly held	—	—	—	464,534	1,001,034	16.8
Total Canadian equities	1,541,538	1,646,911	22.0	821,006	1,416,617	23.9
Foreign equities						
External Managers Fund (United States) (h)	1,337,970	1,191,412	16.0	639,860	653,208	10.9
External Managers Fund (International) (h)	1,275,442	1,095,185	14.7	706,668	814,323	13.6
EAFE Structured Equity Pool	858	875	—	190,420	185,616	3.1
United States Pooled Equity Fund	800	707	—	2,738	2,179	—
US Passive Equity Pooled Fund	—	—	—	236,847	229,334	3.8
US Structured Equity Pool	—	—	—	33,173	30,754	0.5
Total foreign equities	2,615,070	2,288,179	30.7	1,809,706	1,915,414	31.9
Real estate (j)	363,115	388,258	5.2	346,178	353,699	5.9
Total equities and real estate	4,519,723	4,323,348	57.9	2,976,890	3,685,730	61.7
Total investments (k)	$ 7,716,884	$ 7,466,527	100.0	$ 5,356,412	$ 5,974,817	100.0

NOTES TO SCHEDULE 1

The majority of the Endowment portfolio investments are held in pooled investment funds established and administered by the Provincial Treasurer. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2001, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	2001	2000
Canadian Dollar Public Bond Pool	28.9	19.5
Canadian Pooled Equity Fund	29.0	4.1
Domestic Passive Equity Pooled Fund	33.0	—
External Managers Fund	28.0	25.9
EAFE Structured Equity Pool	0.2	21.7
Floating Rate Note Pool	1.9	4.5
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Mortgage Pool	34.8	28.0
Private Real Estate Pool	28.9	28.6
United States Pooled Equity Fund	18.0	18.0
US Passive Equity Pooled Fund	—	25.0
US Structured Equity Pool	—	22.5

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of five years. As at March 31, 2001, securities held by the Fund have an average effective market yield of 5.09% per annum (2000: 5.42% per annum).

(b) As at March 31, 2001, short-term corporate securities have an average effective market yield of 5.4% per annum. The Government of Canada guaranteed security has an average effective market yield of 5.5% per annum and matures on June 1, 2006.

(c) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2001, securities held by the Pool have an average effective market yield of 5.75% per annum (2000: 6.39% per annum) and the following term structure based on principal amount:
under 1 year – 5% (2000: – 9%);
1 to 5 years – 36% (2000: – 35%);
5 to 10 years – 29% (2000: – 29%);
10 to 20 years – 15% (2000: – 15%);
over 20 years – 15% (2000: – 12%).

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The following is a summary of the Alberta Heritage Savings Trust Fund's investment in the Canadian Dollar Public Bond Pool as at March 31, 2001:

	2001		2000	
	Cost	Fair Value	Cost	Fair Value
	(thousands)			
Deposit in the Consolidated Cash Investment Trust Fund	$ 49,690	$ 49,690	$ 33,010	$ 33,010
Public Fixed-income securities				
Government of Canada, direct and guaranteed	599,652	590,519	488,167	473,175
Province of Alberta, direct and guaranteed	8,179	8,647	6,998	7,003
Other provinces, direct and guaranteed	555,554	541,480	279,765	270,899
Municipal	35,615	35,620	15,342	14,718
Corporate	858,431	850,440	784,064	751,579
Private Fixed-income securities				
Corporate	328,663	313,923	226,427	207,356
Total deposit and fixed income securities	2,435,784	2,390,319	1,833,773	1,757,740
Accounts receivable and accrued investment income	42,991	42,991	60,908	60,908
Accounts payable and accrued liabilities	(29,277)	(29,277)	(46,298)	(46,298)
	13,714	13,714	14,610	14,610
Total - Alberta Heritage Savings Trust Fund	$ 2,449,498	$ 2,404,033	$ 1,848,383	$ 1,772,350

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (95.7%) and provincial bond residuals (4.3%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2001, securities held by the Pool have an average effective market yield of 7.14% per annum (2000: 7.66% per annum) and the following term structure based on principal amount: under 1 year – 10% (2000: – 7%); 1 to 5 years – 25% (2000: – 28%); 5 to 10 years – 22% (2000: – 29%); 10 to 20 years – 25% (2000: – 22%) and over 20 years – 18% (2000: – 14%).

(e) The Floating Rate Note Pool is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, the Pool provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of ten years or less. As at March 31, 2001, securities held by the Pool have an average effective market yield of 5.49% per annum (2000: 5.64% per annum).

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (TSE) 300 Index. A portion of the portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the TSE 100 Index and the TSE 60 Index. The other portion of the portfolio fully replicates the TSE 300. The Pool's investment in units of the Floating Rate Note Pool (see Schedule 1e) are used as the underlying securities to support the index swaps of the pool.

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(g) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange 300 Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(h) The External Managers Fund is comprised of numerous portfolios which are managed by numerous external managers with expertise in Canadian small and large stock market capitalization companies, United States, and International equity markets. The international equity market consists of non-North American investments in Europe, Australia, the Far East, Pacific Basin and Emerging Markets. The objective of the Fund is to provide investment returns higher than the total return of the applicable Morgan Stanley, Standard and Poor's and Toronto Stock Exchange indices over a four-year period. The portfolio is comprised of publicly traded equity securities on Canadian and approved foreign markets. Risk is reduced through manager style and market diversification.

The following is a summary of the Alberta Heritage Savings Trust Fund's investment in the External Managers Fund, by geographic region, as at March 31, 2001:

	2001		2000	
	Cost	Fair Value	Cost	Fair Value
	(thousands)			
Foreign Public Equity Pools				
Multi Region	$ 732,078	$ 624,480	$ 271,368	$ 294,185
Europe	368,154	323,501	268,064	271,861
Pacific Basin	175,199	147,201	154,421	229,262
Emerging Markets	11	3	12,815	19,015
	1,275,442	1,095,185	706,668	814,323
United States	1,337,970	1,191,412	639,860	653,208
Canadian				
Large capitalized companies	139,326	149,897	126,095	152,743
Small capitalized companies	105,430	117,103	101,048	114,657
	244,756	267,000	227,143	267,400
Total - Alberta Heritage Savings Trust Fund	$ 2,858,168	$ 2,553,597	$ 1,573,671	$ 1,734,931

The following is a summary of the assets and liabilities of the External Managers Fund as at March 31, 2001:

	2001		2000	
	Cost	Fair Value	Cost	Fair Value
	(thousands)			
Cash and short-term securities	$ 32,602	$ 32,602	$ 35,092	$ 35,092
Investments:				
Public equities	2,788,586	2,484,074	1,540,630	1,701,755
Fixed-income securities	331	272	153	288
Accounts receivable and accrued investment income	66,595	66,595	14,907	14,907
Accounts payable and accrued liabilities	(29,946)	(29,946)	(17,111)	(17,111)
Total - Alberta Heritage Savings Trust Fund	$ 2,858,168	$ 2,553,597	$ 1,573,671	$ 1,734,931

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(i) The Private Equity Pool (98) is managed with the objective of providing investment returns higher than attainable from the TSE 300 Index over a five to ten year period. The portfolio is comprised of equity investments in institutionally-sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Equity Pool is in the process of orderly liquidation.

(j) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over a four-year period or longer. Real estate is held through intermediate companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(k) Where fair value is less than cost, in management's best judgement, and based on market trends, the fair value will likely recover over time.

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SCHEDULE OF TRANSITION PORTFOLIO INVESTMENTS

SCHEDULE 2

March 31, 2001 (thousands)

	2001		2000	
	Cost	Fair Value	Cost	Fair Value
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 85,671	$ 85,671	$ 84,333	$ 84,333
Fixed income securities (b)				
Public, directly held				
Government of Canada, direct and guaranteed	1,043,784	1,051,955	1,521,641	1,494,506
Provincial:				
Alberta, direct and guaranteed	57,717	58,388	98,074	96,999
Other, direct and guaranteed	1,015,814	1,025,335	1,632,732	1,609,316
Municipal	69,645	71,914	70,765	70,783
Corporate	1,671,894	1,692,318	2,655,354	2,632,495
Private fixed-income securities				
Corporate	191,145	191,035	191,712	184,399
Total deposit and fixed income securities	4,135,670	4,176,616	6,254,611	6,172,831
Provincial corporation debentures (c)				
Agriculture Financial Services Corporation	104,796	110,124	284,702	292,181
Alberta Social Housing Corporation	145,591	217,104	192,852	263,914
Alberta Municipal Financing Corporation	—	—	35,000	35,989
Total Provincial corporation debentures	250,387	327,228	512,554	592,084
Total deposit, debentures and fixed income securities	4,386,057	$ 4,503,844	6,767,165	$ 6,764,915
Canadian equities				
Public, directly held:				
TransCanada Pipelines Limited	—	$ —	53,966	$ 35,304
Loans				
Ridley Grain Ltd. (d)	91,245		93,500	
Vencap Acquisition Corporation (e)	6,114		5,349	
Total loans	97,359		98,849	
Total investments(f)	$ 4,483,416		$ 6,919,980	

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NOTES TO SCHEDULE 2

(a) See Schedule 1, note (a).

(b) Fixed-income instruments are managed with the objective of providing a market rate of return higher than the benchmark consisting of 50% of the Scotia Capital 91-day T-Bill Index and 50% of the Scotia Capital Short-term Bond Index. Any excess return is achieved through management of portfolio duration as well as through issuer mix. As at March 31, 2001, fixed-income securities held have an average effective market yield of 5.01% per annum for securities maturing within a year (2000: 5.81% per annum), and 5.10% per annum for securities maturing between 1 and 35 years (2000: 6.36% per annum). As at March 31, 2001, the securities have the following term structure based on principal amount:
under 1 year - 32% (2000: – 16%);
1 to 5 years – 58% (2000: – 64%);
over 5 years – 10% (2000: – 20%).
As at March 31, 2001, securities with a fair value of $277,333,000 (2000: $492,316,000) were loaned to certain borrowers. The loans were secured by marketable securities with a fair value of $297,697,000 (2000: $522,480,000). During the term of the loans, the Fund retains the right to receive income on the securities loaned, in addition to the fees earned.

(c) As at March 31, 2001, Provincial corporation debentures have an average effective market yield of 7.84% per annum (2000: 8.02% per annum). The maturity profile based on expected repayments is as follows: under 1 year - $145,765,000; 1 to 5 years - $23,695,000; and over 5 years - $80,927,000.

(d) Under the terms of the loans to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $91,245,000 and unpaid interest is repayable on or before July 31, 2015. Unpaid interest at March 31, 2001 amounted to $55,125,291 (2000: $55,125,291).

Grain throughput volumes are the main determinant of profitability of the grain terminal and its ability to service its loan from the Province, and therefore the value is sensitive to changes in grain throughput volumes. Grain throughputs are difficult to forecast because they are dependent in part upon port allocation decisions of the Canadian Wheat Board and other factors such as crop size and composition. Accordingly, due to uncertainty of the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.

(e) The principal amount of the Vencap loan, amounting to $52,588,000, is due July 2046 and bears no interest. Investment in the loan is recorded at cost. Cost includes the present value of the anticipated loan repayment amounting to $1 million at December 31, 1995 plus accumulated amortization on the discount.

(f) During the year, $2,400,000,000 was transferred from the Transition Portfolio to the Endowment Portfolio in accordance with the investment provisions of the *Alberta Heritage Savings Trust Fund Act.*

List of Investments (unaudited)

The following unaudited schedules present the ten largest investments in the pools where the Endowment Portfolio's holdings were greater than 5% and the ten largest issues that are directly held in the Transition Portfolio. For a detailed listing of all investments please call (780) 427-3035.

The following schedules present this detail:

CANADIAN DOLLAR PUBLIC BOND POOL **SCHEDULE 1**

Schedule of Ten Largest Issues (based on market)

as at March 31, 2001

Security Name	Security Type	Coupon (%)	Maturity	Principal Amount	Book Value	Market Value
Toronto Dominion Centre	Bond	6.30%	February 28, 2008	340,000,000	$ 339,968,957	$ 334,934,000
Bay Wellington Tower	Bond	6.40%	April 8, 2013	299,000,000	295,340,183	285,365,600
Pacific Centre	Bond	6.19%	January 31, 2003	267,000,000	266,433,682	267,106,800
Government of Canada	Bond	5.75%	June 1, 2029	167,436,000	170,403,768	166,515,102
Government of Canada	Bond	6.00%	September 1, 2005	92,710,000	93,494,044	96,066,102
Government of Canada	Bond	8.00%	June 1, 2027	69,131,000	89,583,592	88,988,880
Province of New Brunswick	Bond	5.25%	June 2, 2009	83,000,000	78,750,764	79,938,960
Hydro Quebec	Bond	6.50%	February 5, 2011	74,470,000	75,441,716	77,042,939
Bentall Centre	Bond	6.34%	November 26, 2004	70,000,000	70,253,397	69,657,000
Province of Quebec	Bond	6.00%	October 1, 2029	70,376,000	67,531,325	65,934,571
Total Ten Largest Issues					$ 1,547,201,428	$ 1,531,549,954
Total Net Asset Value - Canadian Dollar Public Bond Pool					$ 7,571,263,000	$ 7,779,024,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holdings					$ 2,449,498,000	$ 2,404,033,000

DOMESTIC PASSIVE EQUITY POOLED FUND

SCHEDULE 2

Schedule of Ten Largest Issues (based on market)

as at March 31, 2001

Security Name	Book Value	Market Value
Nortel Networks	$ 250,837,060	$ 202,017,782
Royal Bank	82,747,392	83,000,974
BCE Inc.	81,446,422	81,649,655
Toronto Dominion Bank	71,043,783	70,785,105
Bombardier	52,190,957	67,120,736
Bank of Montreal	59,079,912	59,425,553
Bank of Nova Scotia	57,784,566	57,611,758
Manulife Financial Corp.	46,294,633	57,195,733
Canadian Imperial Bank of Commerce	53,936,153	54,257,492
Canadian Pacific Ltd.	37,976,823	51,436,684
Total Ten Largest Issues	$ 793,337,701	$ 784,501,472
Total Net Asset Value - Domestic Passive Equity Pooled Fund	$ 2,048,028,000	$ 2,044,419,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holding	$ 532,863,000	$ 674,804,000

CANADIAN POOLED EQUITY FUND

SCHEDULE 3

Schedule of Ten Largest Issues (based on market)

as at March 31, 2001

Security Name	Number of Shares	Book Value	Market Value
Nortel Networks	10,088,100	$ 324,264,073	$ 224,359,344
Royal Bank	1,976,300	72,948,022	93,241,834
BCE Inc.	2,510,639	77,335,316	88,977,046
Toronto Dominion Bank	1,954,986	54,473,777	77,221,947
Canadian Pacific Ltd.	1,278,000	47,452,247	73,293,300
Bank of Nova Scotia	1,700,000	55,580,967	68,680,000
Bombardier	2,837,700	28,512,973	61,861,860
I Units S&P/TSE 60	1,295,200	61,682,307	57,765,920
Manulife Financial Corp.	1,380,000	52,129,330	57,339,000
Canadian Imperial Bank of Commerce	1,138,300	41,084,754	56,687,340
Total Ten Largest Issues		$ 815,463,766	$ 859,427,591
Total Net Asset Value - Canadian Pooled Equity Fund		$ 2,235,483,000	$ 2,189,159,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holding		$ 693,550,000	$ 635,305,000

EXTERNAL MANAGERS FUND - CANADIAN EQUITIES

SCHEDULE 4

Schedule of Ten Largest Issues (based on market)

as at March 31, 2001

Security Name	Number of Shares	Book Value	Market Value
Nortel Networks	3,037,202	$ 98,309,996	$ 67,547,372
Toronto Dominion Bank	1,197,600	40,523,973	47,305,200
Royal Bank	1,001,200	36,893,594	47,236,616
Bombardier	1,731,200	19,797,786	37,740,160
Bank of Montreal	892,400	27,797,375	35,285,496
Anderson Exploration Ltd.	929,000	18,299,311	33,165,300
Bank of Nova Scotia	747,925	24,901,479	30,216,170
Petro Canada	797,400	17,973,579	28,259,856
Canadian Pacific Ltd.	478,800	16,719,514	27,459,180
BCE Inc.	747,500	17,144,309	26,491,400
Total Ten Largest Issues		$ 318,360,916	$ 380,706,750
Total Net Asset Value - External Managers Fund - Canadian Issues		$ 1,376,350,000	$ 1,539,383,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holding		$ 244,756,000	$ 267,000,000

EXTERNAL MANAGERS FUND - UNITED STATES EQUITIES

SCHEDULE 5

Schedule of Ten Largest Issues (based on market)

as at March 31, 2001

Security Name	Number of Shares	Book Value	Market Value
SSGA World Funds S&P 500	14,123,202	$ 1,415,866,822	$ 1,220,611,845
General Electric Co.	833,489	36,222,564	55,024,799
AT & T	1,999,158	64,579,009	50,976,693
Exxon Mobile Corp.	371,005	41,348,531	47,394,086
Citigroup Inc.	669,600	33,534,074	47,086,193
Pfizer Inc.	723,341	37,432,154	46,715,001
Microsoft Corp.	438,147	40,558,115	37,789,164
Phillip Morris Cos Inc.	488,250	29,993,436	36,537,417
American International Group Inc.	263,450	31,459,075	33,446,714
Calpine Corp.	358,552	22,888,758	31,140,573
Total Ten Largest Issues		$ 1,753,882,538	$ 1,606,722,485
Total Net Asset Value - External Managers Fund - United States Issues		$ 3,556,991,000	$ 3,429,695,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holding		$ 1,337,970,000	$ 1,191,412,000

EXTERNAL MANAGERS FUND - GLOBAL EQUITIES

SCHEDULE 6

Schedule of Ten Largest Issues (based on market)

as at March 31, 2001

Security Name	Number of Shares	Book Value	Market Value
SSGA EAFE Index Pool	126,510,156	$ 1,414,736,777	$ 1,195,533,753
Vodafone Group	18,449,467	90,072,896	79,693,720
ENI	4,566,398	38,979,743	46,881,245
Telephonica SA	1,788,810	47,138,015	45,167,833
Royal Dutch Petroleum	477,459	41,099,336	41,725,481
Novartis	15,787	36,317,769	38,869,217
BNP Paribas	292,759	35,211,994	38,707,651
Aventis	313,861	32,710,640	38,275,413
Nestle	11,404	31,115,696	37,488,917
Noki AB OY	982,920	35,910,819	37,105,678
Total Ten Largest Issues		$ 1,803,293,685	$ 1,599,488,908
Total Net Asset Value - External Managers Fund - Global Issues		$ 4,526,698,000	$ 4,156,677,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holding		$ 1,275,442,000	$ 1,095,185,000

PRIVATE REAL ESTATE POOL

SCHEDULE 7

Schedule of Ten Largest Holdings (based on market)

as at March 31, 2001

Location	Type	Book Value	Market Value
North York and Scarborough, Ontario	Retail	$ 341,330,382	$ 356,965,000
Toronto, Ontario	Office/Retail	96,801,875	157,000,000
Mississauga, Ontario	Retail	118,948,241	110,290,250
Calgary, Alberta	Office/Retail	67,800,000	92,150,000
Toronto, Ontario	Office	71,555,975	69,400,000
Mississauga, Ontario	Industrial	55,567,000	64,918,000
Calgary, Alberta	Office/Retail	33,759,384	59,808,000
Edmonton, Alberta	Office/Retail	53,000,000	53,150,000
Calgary, Alberta	Retail	18,111,279	36,204,000
Calgary, Alberta	Office	34,000,000	34,000,000
Total Ten Largest Holdings		$ 890,874,136	$ 1,033,885,250
Total Net Asset Value - Private Real Estate Pool		$ 1,343,125,952	$ 1,343,469,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holding		$ 363,115,000	$ 388,258,247

ALBERTA HERITAGE SAVINGS TRUST FUND - TRANSITION PORTFOLIO

SCHEDULE 8

Schedule of Ten Largest Canadian Issues (based on market)

as at March 31, 2001

Security Name	Security Type	Coupon (%)	Maturity	Principal Amount	Book Value	Market Value
Fixed Income Securities						
Province of Ontario	Coupon	—	April 5, 2001	150,000,000	$ 149,899,746	$ 149,898,000
Government of Canada	Bond	8.50%	April 1, 2002	114,454,000	118,055,147	118,764,336
Pacific Centre	Bond	6.30%	January 31, 2003	100,000,000	100,000,000	100,500,000
Province of Ontario	Bond	9.75%	October 29, 2001	96,613,000	98,474,945	99,151,024
Government of Canada	Bond	5.00%	September 1, 2004	85,157,000	83,331,436	85,199,579
Cadillac Fairview Corporation Limited	Bond	5.85%	October 31, 2001	79,375,000	79,375,000	79,446,438
Province of British Columbia	Bond	9.00%	June 21, 2004	65,850,000	71,126,842	73,368,095
Province of Ontario	Bond	8.00%	March 11, 2003	63,670,000	65,977,690	67,329,115
Government of Canada	Bond	11.75%	February 1, 2003	59,547,000	66,338,131	66,794,465
Province of Ontario	Coupon	—	May 18, 2001	66,000,000	65,517,390	65,582,880
Total Ten Largest Issues					$ 898,096,327	$ 906,033,932
Total Investments - Transition Portfolio					$ 4,483,416,000	$ 4,601,203,000

Alberta Heritage Savings Trust Fund
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Alberta Heritage Savings Trust Fund Standing Committee

Chairman:	Mr. Drew Hutton
Deputy Chairman:	Mr. Richard Magnus
Members:	Mr. Bill Bonner
	Ms. Debbie Carlson
	Mr. Robert Fischer
	Mr. Mel Knight
	Mr. Rob Lougheed
	Mr. Richard Marz
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Committee Clerk to the Standing Committee
Mrs. Diane Shumyla

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	John D. Watson, Vice-President, Finance and Chief Financial Officer, Alberta Energy Company Ltd.

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Alex Fowlie, Ministerial Projects and Liaisons, Alberta Finance

Investment Manager
Paul Pugh, Chief Investment Officer, Investment Management Division, Alberta Revenue

Auditor
Auditor General of Alberta

* Effective in May 2001, the chairman is Eric McGhan, Deputy Minister of Revenue.